



PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO
607 North 8th Street
BOISE, IDAHO 83702

MINUTES
OF
MEETING OF RETIREMENT BOARD

The Board of the Public Employee Retirement System of Idaho met at the PERSI Administration Building, 607 North Eighth Street in Boise, Idaho at 8:35 a.m., February 26, 2002. The following members were present:

Jody B. Olson
Dennis L. Johnson
J. Kirk Sullivan
Susan K. Simmons

Trustee Pam Ahrens was absent and excused. Executive Director Alan H. Winkle, Deputy Attorney General Brian Kane, Financial Officer James Monroe, Chief Investment Officer Robert Maynard, and Management Assistant Joanne C. Ax were also in attendance. Other persons attending portions of the meeting were:

Rod MacKinnon	Mountain Pacific Investment Advisors
Bill Palumbo	Mountain Pacific Investment Advisors
Drew Black	DB Fitzpatrick & Co.
Dennis Fitzpatrick	DB Fitzpatrick & Co.
Robert Schmidt	Milliman USA
Wendy McCall	Russell/Mellon
Lucinda Smith	Mellon
Charlie Brown	Retired Educators Assn. of Idaho
Richelle Sugiyama	PERSI
Cecile McMonigle	PERSI
Rhonda Yadon	PERSI
Judy Aitken	PERSI
Susan Shaw	PERSI

OLD BUSINESS

Approval of the Minutes: By motion duly made by Trustee Johnson and seconded by Trustee Simmons, the Board unanimously approved the minutes of the January 22, 2002, regular meeting of the Retirement Board as submitted.

PORTFOLIO

CIO Robert Maynard told the Board that our manager, Brandes, will vote against the HP/Compaq merger. A close vote is expected next month; the Hewlett family is against the merger. In order for the merger to proceed, a majority of actual votes cast must be in favor. In our DB plan, on routine issues, proxies are voted in favor of management. In non-routine issues such as mergers, the manager uses his own judgment and informs us in advance of how he will vote. In response to a question from the Chair, Mr. Maynard said if the Board felt strongly about the HP matter, they have the power to direct the vote.

Future Meetings: We have received the private equity report from Hamilton Lane for the September 30, 2001 period, but will wait to distribute them to the Board until Mario Gianinni can be present to answer questions. The Commercial Mortgage review will be brought to the Board in May. At either the March or April meeting, Mr. Maynard will discuss Clearwater Advisors and their possible role in cash management. He encouraged the Board to attend the Pacific Pension Institute (PPI) conference July 24 -25 in Seattle if their schedules allow. The PERSI Investment Manager's Conference is set for May 14-15 in Boise. It will be a publicly noticed meeting.

Mellon Report: Lucinda Smith and Wendy McCall reviewed the Russell/Mellon Analytical Service report dated February 26, 2002, on PERSI fund performance. After referencing the September 11 tragedy, the Enron scandal, a dip in the bond market and the US recession, the report provided the following highlights of the Total Fund Performance.

“In reaction to these events, the PERSI's Total Fund earned an attractive 7.5% for the quarter and was ranked in the 35th percentile when compared to its public fund peers in the TUCS Public Fund Universe. For the year, the fund lost 6.6% and was ranked in the 76th percentile of this same universe. The boost in the fourth quarter overall ranking was a result of PERSI's higher allocation to equity (domestic and international), the best performing segment of the quarter. This market environment rewarded PERSI for its over-allocation to equities. On a relative basis, the fund fared better than its target index for all extended time periods. In particular, by .8%, 2.8% and .9% for the 1.3. and 5- year time periods.

“The PERSI fund remains a better risk/return tradeoff than its respective target benchmark for all extended time periods. The asset allocation of the fund when compared to its target allocation is under-allocated in domestic equity by 4%, over-allocated in international equity by 6% and over-allocated in fixed income by 2%. The overall allocation is Equity 66.2%, Bonds 29.2%, Cash 1.8% and Real Estate/Other 2.8%.”

Ms. McCall reviewed rankings and performance of each manager. Chairman Olson asked how the custom index is derived. Mr. Maynard talked about the asset allocation and the measurement information he derives from this custom index.

Monthly Portfolio Mr. Maynard discussed his investment report dated February 25, 2002, which he had updated from the version previously furnished to the Board. In the report, Mr. Maynard noted that

“Although there are some who are fearful of a "double dip" recession, the consensus is generally that the economy is in the early stages of recovery. There is a disconnect, however, between the general economic views and the consensus prospects for recovery in corporate earnings. There is still concern that corporate earnings will not grow apace with the economic recovery, and thus the US equity markets have been problematic. The Enron and Global Crossing bankruptcies, with their concerns about accounting and reliability of public information, has only added to the recent equity market uncertainty.

“As a result, US equity is struggling, while international, and particularly emerging markets, have been positive. The US bond markets, after recent weakness, rebounded somewhat this month.

“All managers are either within their expected characteristics or have reasonable explanations for slight deviations.”

Our managers are still not getting the traction in the market that Mr. Maynard expects. The managers will come to Boise in May for in-depth discussions. Mr. Maynard discussed his report in detail saying we allocate and invest for the long term. He showed what would happen if we used passive investments rather than active, saying our policies are for the long term with a 20-year horizon. Active managers have added about 3% per year over the last three years to our returns. He explained the Treasury Inflation Indexed Securities and how their yields are computed. We purchased them with a buy and hold expectation and are using them as part of our portfolio diversification plan.

Mercer Report: William M Mercer Investment Consulting, Inc. had previously provided the performance evaluation report for the period ending December 31, 2001, on the Choice Plan. Mr. Maynard reviewed the report. We are also working with them on some tracking errors. Mr. Maynard said generally, the funds are performing as expected. Chairman Olson asked when the Board would receive a report of member satisfaction on the Choice Plan. Mr. Winkle said a report on participation and status will be presented at the next Board meeting.

Other Investment Business: Chairman Olson opened the floor to comments from managers who were attending the meeting. Dennis Fitzpatrick talked about the expected recovery over the next nine months, noting the Enron debacle is causing uncertainty. He mentioned the possibility of a potential deflation cycle over the long term and the effect it could have on equity markets. Bill Palumbo said consumer spending has kept the recession mild and believes there will be a mild recovery. Concern continues that corporate profits are already reflected in the market and that a strong economic boom should not be expected.

FISCAL

Expense Reports: Financial Officer James Monroe reviewed the Administrative and Portfolio expense reports for the month ended January 31, 2002, which had previously been

furnished to the Board. JFAC has approved the budget and it is moving through the process. The 1099's have been sent out and the extra effort did not have a significant impact on the budget. Administrative expenses are lower than expected at this point primarily due to salary savings from vacant positions and timing of Galena maintenance programming effort. In response to a question from Trustee Sullivan, Executive Director Winkle said those salary savings are from two Customer Service positions for the Choice Plan that is still not fully operational. We are not spending the money until we have determined the workload in that department. After the review of the Portfolio expenses, Chairman Olson asked about the issue of legislative appropriation of those expenses. Mr. Monroe said we now have a new budget analyst and we'll need to start the education process over on that issue.

Financial Statements – PERSI and Sick Leave: Senior Accountant Rhonda Yadon provided unaudited copies of the financial statements for the quarters ended December 31, 2001 and 2000. She also reviewed the unaudited Retiree Medical Insurance Sick Leave Reserve report for the six months ended December 31, 2001 and 2000. Responding to a question from Chairman Olson, she said in mid-May she will meet with the auditors and work out an audit plan for the year. In mid-June, the auditors will be in-house to audit PERSI controls and will be back in mid-August to begin the audit of the PERSI financial statements.

EXECUTIVE DIRECTOR

New Employers: By motion duly made by Trustee Sullivan, seconded by Trustee Johnson and unanimously approved, the Board welcomed Owyhee Sewer District as a new employee with an effective date of March 1, 2002. There are no entry costs for this employer to join PERSI.

Choice Plan Investment Proxy Policy: There was a short discussion of the memorandum dated February 22, 2002, regarding how proxy's would be voted on Choice Plan Investments. By motion duly made by Trustee Johnson, seconded by Trustee Simmons and unanimously approved, the Board adopted the Proxy Voting Policy for the PERSI Choice Plan as proposed.

Status Update: The Board had previously received the monthly status memo that summarized the projects in which PERSI is involved. Mr. Winkle reviewed this memo and told the Board that we are working on a web application for small employers to fill out their transmittals on-line rather than on paper. We are also working with Employers to assist in their conversions to electronic transmission of their data.

Two employers have withdrawn from PERSI. Lost Rivers Charter School was dissolved by the Department of Education effective July 31, 2001. Raft River Fire Protection District ceased to have qualifying members, so is effectively withdrawn as of July 1, 2001.

We are reviewing our use of social security numbers and date of birth on our reports and correspondence to be sensitive to the growing issue of identity theft. The Galena system has the members' social security numbers, but runs on a member identification number. The next choice Plan quarterly statements will use the member ID and suppress the date of birth.

Legislative Review: Mr. Winkle discussed his memorandum dated February 19, 2002, which reported on legislation affecting PERSI in this session of the Legislature. He told the Board that two competing bills, each involving the police/safety officers death benefit are before a legislative committee today. He discussed the differences in the proposals. The budget is waiting for third reading, but the legislators seem to be waiting for some decision on the issue of medical insurance. Under the surface is the issue of re-employment of retirees. Mr. Winkle

talked about the various scenarios and discussion points on this issue and the problems each would create.

Trustee Sullivan's Board Appointment Confirmed: A letter dated February 7, 2002, from Lieutenant Governor Jack Riggs, President of the Senate, has officially confirmed the reappointment of Dr. J. Kirk Sullivan to the PERSI Board to serve a term expiring July 1, 2006.

FUTURE BOARD MEETINGS

Tuesday, March 19, 2002, 8:30 a.m., Boise - PERSI office

Tuesday, April 23, 2002, 8:30 a.m., Boise - PERSI office

May 14, 15 – PERSI Investment Conference

Tuesday, May 28, 2002, 8:30 a.m., Boise - PERSI office

Tuesday, June 25, 2002, 9:30 a.m., at

The Coeur d'Alene Resort, Coeur d'Alene, Idaho

Investment Manager Conference: Mr. Maynard said the May 15-15 conference will be publicly noticed as he expects a quorum of trustees to attend. As space is available, he will invite trustees from other pension funds to sit in on the discussions. Trustee Sullivan asked for a list of attendees, their jobs and responsibilities; Mr. Maynard will provide that information.

Adjournment: There being no further business to conduct, by motion duly made by Trustee Sullivan, seconded by Trustee Johnson and unanimously approved, the meeting was adjourned at 10:10 a.m.

Jody B. Olson
Chairman

Alan H. Winkle
Executive Director